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COMMENTARY

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COVID-19 had little financial impact on publicly traded nursing home companies

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In response to the pandemic, the federal government and state governments have provided nursing homes with billions of additional funds and nonmonetary support. This support includes the Provider Relief Fund (from the Coronavirus Aid, Relief, and Economic Security [CARES] Act in March 2020) (about $21 billion), over $5.7 billion in loan funds from the Paycheck Protection Program, Medicare accelerated payment funds, state Medicaid program funds, and nonmonetary support including personal protective equipment, tests and testing, training, and special assistance.[1]

In spite of this government relief, the American Health Care Association (AHCA) has claimed that the COVID-19 pandemic has resulted in serious financial damage for long-term care corporations. The AHCA argued that the industry will lose $96 billion in the 2020-2021 period, a large number of nursing home corporations are on the brink of bankruptcy, and additional government aid is needed to prevent financial disaster.[2]

FINANCIAL DATA FROM PUBLICLY TRADED CORPORATIONS

To address the claims of serious financial damage from the pandemic, this article examines the financial status of publicly traded nursing home companies using audited data from the Securities and Exchange Commission (SEC). The "10-K filings" provide insight into their annual financial performance for 2018 through 2020.

Although most nursing home corporations are privately held companies that do not make their financial information available to the public, they should fare no better or worse than publicly traded corporations during the market upheaval caused by the COVID-19 pandemic during 2020.

Eventually, cost reports from all nursing homes that accept Medicare and Medicaid funds will become publicly available. These reports, however, are incomplete because they only provide information on operating companies with very limited data on parent, management, property, and other related party nursing home companies (e.g., supply, staffing, and pharmacy companies).[3]

UNDERSTANDING NURSING HOME CORPORATE FINANCIAL INDICATORS

Nursing home industry representatives use net income reports to claim that "nursing homes are running on a thin margin" or have "exceeding low profitability." The Medicare Payment Advisory Commission (MedPac) has found that for-profit nursing homes averaged 13% profits on Medicare over the past 19 years, but total net income margins for all payers and all nursing homes ranged from 0.6% to 3.8%.[4] Overall, EBITDA (earnings before interest, taxes, depreciation, and amortization) has become accepted as a better measure of financial strength than net income margins because it gives a more complete financial picture.[5]

The long-term care industry is asset intensive with high debts. Corporations are allowed to depreciate their assets over time as an expense due to the declining value of equipment and real property, although the market value of facilities often appreciates rather than declines even though buildings are aging. Depreciation allowances serve as tax subsidies, which have become

TABLE 1 Revenues, net income, and cash flow from operating activities for publicly traded companies during 2018–2020

	Revenue (billions)			Net income ($billions)			Cash flow from operating activities		
Company	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Nursing homes									
Brookdale[a]	$3.5	$4.0	$4.5	$0.08	−$0.27	−$0.53	$0.21	$0.21	$0.20
Diversicare[b]	$0.5	$0.5	—	$0.01	−$0.04	—	$0.05	$0.01	—
Ensign Group[c]	$2.4	$2.0	$1.8	$0.17	$0.11	$0.09	$0.37	$0.19	$0.21
REITs									
Healthpeak[d]	$1.6	$1.2	$1.2	$0.43	$0.06	$1.1	$0.76	$0.85	$0.85
LTC Properties Inc.[e]	$0.2	$0.2	$0.2	$0.10	$0.09	$0.15	$0.12	$0.12	$0.12
National Health Care[f]	$1.0	$1.0	$1.0	$0.04	$0.07	$0.06	$0.20	$0.10	$0.10
National Health Investors[g]	$0.3	$0.3	$0.3	$0.19	$0.16	$0.15	$0.23	$0.24	$21
Omega Health Care[h]	$0.9	$0.9	$0.9	$0.16	$0.35	$0.29	$0.71	$0.55	$0.50
Sabra Healthcare REIT[i]	$0.6	$0.7	$0.6	$0.14	$0.07	$0.28	$0.37	$0.36	$0.36
Ventas[j]	$3.8	$3.9	$3.7	$0.44	$0.43	$0.42	$1.5	$1.4	$1.4
Welltower[k]	$4.6	$5.1	$4.7	$0.19	$0.16	$0.15	$0.23	$0.24	$0.21

Note: Authors' analysis of SEC 10-K reports for publicly traded nursing home companies.
Abbreviations: —, 2018 SEC 10-K not available; REIT, real estate investment trust; SEC, Securities and Exchange Commission.
[a]https://www.sec.gov/ix?doc=/Archives/edgar/data/0001332349/000133234921000045/bkd-20201231.htm.
[b]https://www.sec.gov/ix?doc=/Archives/edgar/data/919956/000091995621000016/dvcr-20201231.htm.
[c]https://www.sec.gov/ix?doc=/Archives/edgar/data/1125376/000112537621000020/ensg-20201231.htm.
[d]https://www.sec.gov/ix?doc=/Archives/edgar/data/765880/000162828021001804/peak-20201231.htm.
[e]https://www.sec.gov/ix?doc=/Archives/edgar/data/887905/000155837021001231/ltc-20201231x10k.htm.
[f]https://nhccare.com/investor-relations/sec-filings/
[g]https://www.sec.gov/ix?doc=/Archives/edgar/data/877860/000087786021000015/nhi-20201231.htm.
[h]https://www.sec.gov/ix?doc=/Archives/edgar/data/888491/000088849121000006/ohi-20201231x10k.htm.
[i]https://www.sec.gov/ix?doc=/Archives/edgar/data/1492298/000149229821000014/sbra-20201231.htm.
[j]https://www.sec.gov/ix?doc=/Archives/edgar/data/740260/000074026021000048/vtr-20201231.htm.
[k]https://www.sec.gov/ix?doc=/Archives/edgar/data/766704/000076670421000018/well-20201231.htm.

increasingly generous through acceleration, that allows for high deductions in the early years of ownership.

Cash flow is the cutting-edge measure of successful corporate performance. The immediate availability of cash, valued more by investors than EBITDA, has become the gold standard for evaluating corporate performance. Cash flow pertains to liquidity and cash available for operating needs, and, in the final analysis, to investors (free cash flow), forms the basis of valuation. It removes the distorting effects of noncash charges such as depreciation and amortization (like EBITDA), accounts for changes in working capital (like operating cash flow), and isolates the cash that is available to be distributed or used by the company.

TRENDS IN REVENUES, NET INCOME, AND CASH FLOW FOR PUBLICLY TRADED CORPORATIONS

Three large nursing home chains (Brookdale, Diversicare, and Ensign Group) and eight real estate investment trusts (REITs) that specialize in nursing homes are publicly traded (Table 1). Although Genesis (NYSE:GEN) has been the largest publicly traded nursing home chain, it recently left the New York Stock Exchange to restructure the company after citing losses due to the pandemic and a break up with its REIT landlord, Welltower Inc.[6] The Five Star Senior Living (NYSE:FVE) operates senior living communities but announced plans, underway since 2018, to sell its skilled nursing beds in a shift toward independent living.[7]

Most publicly traded companies are REITs that play a much larger role in nursing homes than previously realized by not only owning property but also some operate nursing homes. The Sovereign Wealth Fund Institute's (SWFI) ranking of the 61 largest US REITs identified Welltower as the third largest with $31.9 billion in assets and Ventus as the fifth largest with assets of $24.8 billion. In comparison to REITs in other industrial sectors, the Simon Property Group, the biggest player in retail real estate, has $30.7 billion in assets and is ranked number 4 between Welltower and Ventus.[8]

Nursing home corporate revenues did not collapse in 2020 compared to 2018 and 2019. In fact, of the

TABLE 2 EBITDA, cash flow, debt, equity, and stock prices for publicly traded nursing home companies during 2019–2020

Company	EBITDA		Cash/cash equivalent		Debt		Equity		Stock prices	
									April 7	January 1
	2020	2019	2020	2019	2020	2019	2020	2019	2021	2020
Nursing homes										
Brookdale	$0.26	$0.40	$0.38	$0.24	$3.8	$3.2	$0.8	$0.7	$6.7	$7.2
Diversicare	$0.02		$0.03	$0.00	$0.06	$0.07	−$0.03	−$0.04	$3.2	$2.7
Ensign Group	$0.29	$0.23	$0.24	$0.06	$0.11	$0.33	$0.8	$0.7	$91.8	$45.3
REITs										
Healthpeak	[a]	[a]	$0.04	$0.08	$6.0	$5.9	$7.3	$6.6	$32.6	$28.6
LTC Properties Inc.	[a]	[a]	$0.01	$0.00	$0.64	$0.69	$0.8	$0.8	$43.5	$44.9
National Health Care	[a]	[a]	$0.15	$0.05	[b]	[b]	$0.8	$0.8	$74.3	$86.9
National Health Invest	[a]	[a]	$0.04	$0.01	$1.4	$1.5	$1.5	$1.5	$74.5	$80.8
Omega Health Care	[a]	[a]	$0.16	$0.02	$5.2	$5.1	$4.0	$4.4	$38.7	$43.0
Sabra Healthcare REIT	[a]	[a]	$0.06	$0.04	$2.4	$2.4	$3.4	$3.5	$18.3	$21.1
Ventas	$1.9	$1.9	$0.41	$0.11	$11.9	$12.2	$10.3	$10.5	$54.8	$57.0
Welltower	$2.0	$2.3	$1.5	$0.28	$13.7	$13.3	$16.9	$16.5	$75.5	$81.5

Note: Authors' analysis of SEC 10-K reports for publicly traded nursing home companies. All companies were listed on NASDAQ except Diversicare which was OTC. Abbreviations: EBITDA, earnings before interest, taxes, depreciation, and amortization; NASDAQ, National Association of Securities Dealers Automated Quotations; OTC, Over-the-counter securities are traded via a dealer network as opposed to a centralized exchange; REIT, real estate investment trust; SEC, Securities and Exchange Commission.

[a]Did not report a specific number for EBITDA.

[b]Long-term debt paid down—no credit facility, SEC 10-K pages 29, 60, https://nhccare.com/investor-relations/sec-filings/

11 companies, only four had lower revenues in 2020 than in 2019. In terms of net income, all but two companies reported higher net incomes in 2020 compared to 2019. In addition, the cash-related metrics reported by publicly listed companies including the REITS, except for three companies, improved in 2020 in relation to 2019.

FINANCIAL TRENDS IN EBITDA, CASH FLOW, DEBT, EQUITY, AND STOCK PRICES FOR PUBLICLY TRADED CORPORATIONS

As noted, EBITDA and cash flow are the most important indicators of corporate financial health. Table 2 shows the changes in EBITDA, cash flow, debt, and equity. Although many companies did not report the EBITDA, the Ensign Group had higher EBITDA, Ventas had the same EBITDA, and Brookdale and Welltower had lower numbers in 2020 compared to 2019. The cash or cash equivalents were higher or the same in all but four companies. Debt levels were higher in five companies and equity was higher or about the same in all but one company in 2020 compared to 2019.

Stock prices on all exchanges crashed in mid-March of 2020. Much of that sudden drop in the market was due to uncertainty which preceded the stimulus funds appropriated by Congress. After passage of the CARES Act, emergency funds began to flow into the long-term care industry. Other federal assistance in the form of tax deferrals resulted in an injection of cash into corporations. Reflected by the markets in general, stocks in the nursing home industry began to recover sharply after subsidies began to flow. The performance of the Ensign Group stock (with a 103% increase since January 2020) was phenomenal.

DISCUSSION

The pandemic has been devasting in terms of high nursing home resident and staff infections and high resident death rates. In response, Congress and the federal and state governments responded with a large infusion of funds and loans to assist nursing homes during the crises.

Despite statements suggesting severe financial problems for the nursing home industry, the data on publicly traded companies do not show insolvencies, bankruptcies, and severe losses of overall industry revenues. Genesis and Five Star Senior Living companies, exceptions to the rule, require more in-depth analysis to understand the role that their prepandemic financial problems played in restructuring or divesture decisions.

Nursing home revenues in 2020 continued at about the same levels except in four companies, and the federal and state direct grants, loans, and deferral of taxes may very well have offset most of the losses. Net income and cash-related metrics were generally favorable.

Legislators, advocates, and the public need, and are entitled to, specific financial information from both public and nonpublic nursing home corporations along with data concerning how the relief funds were used by the nursing home industry. Without transparency and objective, scientific data, it is not possible to determine whether additional government funding is needed to support the nursing home industry.

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CONFLICT OF INTEREST

The authors have declared no conflicts of interest for this article.

AUTHOR CONTRIBUTIONS

David E. Kingsley was involved in the conception and design, acquisition of data, analysis and interpretation of data and table design, drafting of article, and final approval of version to be published. Charlene Harrington was responsible for analysis and interpretation of data, critical revision of article, and final approval of version to be published.

SPONSOR'S ROLE

None.

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